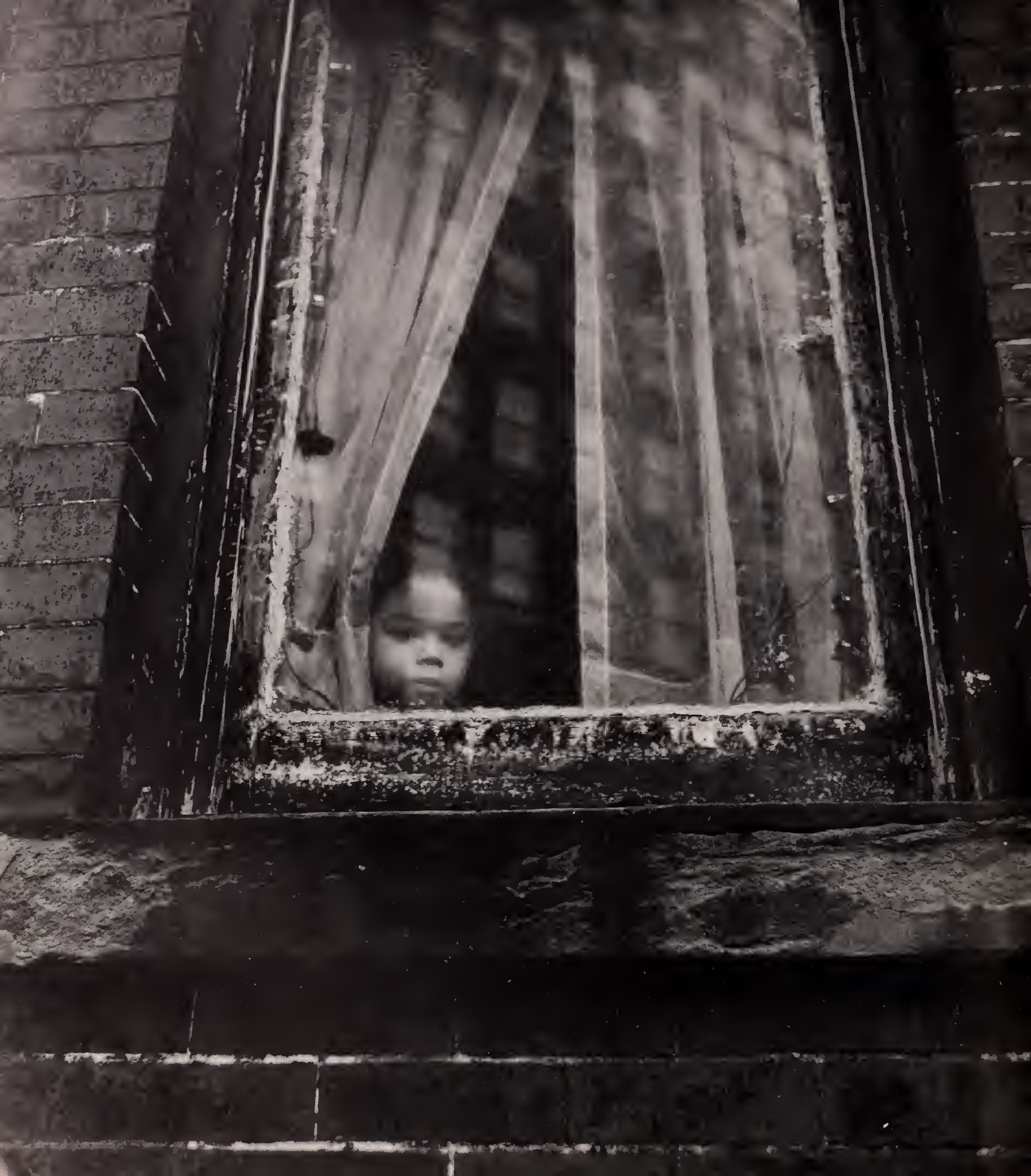
Housing in New York City



Foreword

Of all the problems besetting New York City, housing is one of the most visible. It is also a problem that fundamentally affects the City's quality of life. For the poor, housing is often deteriorating or dilapidated. For those who are better off, it is difficult to find good quality housing at realistic prices.

Thoughtful businessmen recognize that inferior and inadequate housing can be a barrier to employee recruitment and that it can be a prime factor in the decay of the environment in which businesses operate. Conversely, remedying shortcomings in housing could generate new business opportunities while at the same time contribute to the well-being of the City as a whole. It is to the question of the opportunities—as well as the problems—inherent in New York City's housing situation that this study is addressed.

Housing in New York City was prepared by Nathan Bloom of the Regional Economics Section of the Economics Department. It benefited greatly from the assistance and insights provided by numerous persons and organizations, public and private, in the housing field. In reviewing housing policies and practices, which frequently generate more heat than light, we have tried to be objective and dispassionate. We do not expect that our ideas will be completely acceptable to all proponents of particular housing policies. We earnestly hope, however, that everyone concerned will give this report careful consideration and that it will be useful to all who are dedicated to making this city a better place in which to live and work.

Thomas R. Wilcox
Vice Chairman
First National City Bank
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Photography: Steve Salmieri

Highlights

- ☐ New York City suffers from an acute shortage of reasonably priced decent housing, and present trends point to a worsening of the situation. In recent years, growth in the number of households has exceeded that of dwelling units, and the gap is widening. The rental vacancy rate, low at 1.2 percent in April 1968, now is estimated to be dropping out of sight.

- ☐ Unsatisfied demand bears heavily on low- and moderate-income families. Lately, however, because of substantial increases in costs, even middle-income groups have been priced out of the market for conventionally financed new apartment housing.

- ☐ Within the past few years, there has been a noticeable expansion of government programs to stimulate housing (including new incentives to private housing developers), but so far, the government's performance has fallen short of its rhetoric.

- ☐ Present and future housing needs are substantially in excess of what existing systems are producing. Therefore, new systems must be found to create housing, involving strong business-government cooperation.

- ☐ Business should realize that its participation in improving and increasing the housing stock is in its own best interest, while government should make such involvement attractive to business in reality and not merely in the abstract.

- ☐ The housing agenda should include large-scale rehabilitation and "turnkey" operations (where private developers build low-income housing and turn it over at a fair price to the City Housing Authority). Use of new technological and financing techniques will be crucial. These might best be orchestrated within comprehensive "citibuilding" projects in which strong consortia of real estate, construction, financial and other business corporations would combine their resources and skills to plan, develop and build entire neighborhoods and communities.

- ☐ For the long run, however, means will have to be found to enable the poor to raise their incomes so that they can bid freely in the housing market. Thus the best housing policy is not one which imposes constraints (e.g., rent control) but rather the kind that expands economic opportunities for the City's people.

The Twilight of New York's Private Housing Market

An Emergent Condition

Housing in New York City is approaching a crisis condition. The free market mechanism for providing new units has broken down. As the *New York Times* reported last October, "Privately financed apartment construction in the City is at one of the lowest levels in history. Outside of Manhattan, residential building activity is at a virtual standstill." Government has not effectively stepped into the breach. The cumulative effects of neighborhood deterioration, abandonments, vandalism and fire have caused recent losses of over 33,000 units per year, with another 10,000 lost annually through demolition.

New York City has about 2,850,000 housing units, of which 75 percent represent rental housing. Seventy percent of this total, roughly 1,500,000 units, are over 40 years old. Rising costs of maintenance, combined with poor rehabilitation investment prospects, point clearly to the need for drastic reforms. Without them the City may become the slum capital of the country.

Both national and local forces have contributed to this situation. Nationally, the lack of investment in housing has contrasted sharply with the huge capital goods boom which carried into the late Sixties. While other investment areas remained attractive, investment in housing lagged in the face of capital and labor shortages, inflation, rising interest and tight money. The absence of a technologically rational housing industry fortified by an aggregate mass market and a guaranteed smooth flow of funds has added to the problem.

Locally, restrictive and costly zoning regulations, high-priced labor, land shortages reinforced by commercial competition for space, changing population composition, administrative red tape and rent control have seriously complicated housing problems. These have not been improved by the sociological difficulties associated with large concentrations of poor locked into the central city by discrimination and high home prices in the suburbs.

Origins of the Shortage

During the Sixties, growth in the number of households in New York City exceeded that in dwelling units by over 25 percent. The rental vacancy rate, very low at 1.2 percent in April 1968, now is estimated to have fallen even lower and constitutes a meaningless measurement. Long lists of families (131,000 by a recent count) await public housing, and musty old-law tenements, obsolete 50 or more years ago, are still rented.

Housing construction in the City has fallen off drastically since the mid-Sixties, while losses have soared. In the three-year period ending in April 1968, approximately 80,000 new and converted dwellings supplemented the City's stock. During this time, however, an astounding total of 100,000 units disappeared from the inventory—enough to house a population of almost 300,000. Thus, in the last few years, while the number of households (family units) in the City has continued to increase, the number of homes (living quarters) has actually declined for the first time in the recorded history of New York.

The core of New York City's housing problem rests on a seemingly intractable cost-income disparity. Increases in construction costs and mortgage and real estate tax rates make the private building of New York City apartment houses uneconomic except for the very high rent market. Unsatisfied housing needs bear most heavily on low- and moderate-income families, particularly those who have recently arrived in the City and who tend to be in minority groups. Lately, moreover, because of leaping costs, even middle-income families have found themselves priced out of the market for conventionally financed new housing.

In 1961, a new, conventionally financed two-bedroom apartment in a six-story elevator building would have rented for $210 a month, thus requiring an annual family income of close to $10,000. Today, such new apartments must rent at approximately $400 per month. With rent equivalent to 25-30 percent of income, the family must earn from $16,000 to $19,000 per year. Only about 7 percent of the City's households earn annual incomes of $15,000 and over.

Rising Costs

In recent years new housing costs have risen considerably faster than the general price level, in the nation as well as in New York City. Building construction costs in New York City, as indicated by the *Engineering News-Record* Index, have increased by 6.2 percent annually between 1966 and 1969, as compared with a 3.4 percent annual increase during the previous decade. Construction union contract settlements in 1969 could result in overall construction cost increases of 10 percent annually over the next three years. Average room rents in newly planned, publicly assisted middle-income housing in New York City now are estimated between $70-90 per room per month, compared with $30 a decade ago.

Zoning

A further contribution to high housing costs in New York City results from the zoning ordinance which became effective in December 1961. In addition to reducing the amount of land zoned for residential purposes, the new ordinance sharply reduced the amount of floor space a builder could erect on a given size plot. Sites became more difficult to assemble, and their costs rose because fewer could be economically developed and more time was required to obtain possession. In effect, the new zoning ordinance created an artificial land scarcity all over New York City.

Between 1962 and 1965 there was a temporary glut in New York's housing as private builders rushed completion of almost 100,000 apartments planned under the earlier less restrictive zoning regulations. Predictably, apartment house construction dropped off sharply after this unusual surge.

Rent Control

Reflecting the growing imbalance between supply and demand occasioned by the drop in new construction and sharply rising costs of building and maintaining housing, apartment rents climbed in the

late Sixties, with particularly large jumps in 1968. These boosts were especially marked in the uncontrolled part of the City's inventory occupied by about one third of the City's renter households. During 1968, median increases following two or three year leases were 26.5 percent and the median dollar increase per month per apartment was $45.40.* This situation led to enactment of a new City law limiting rent increases on renewals in two thirds of the uncontrolled apartments to 10 percent on two-year leases and 15 percent on leases of three years. Increases for new tenants can be 15 percent on two-year and 25 percent on three-year leases. The very real threat that this limited extension of controls would be followed by the imposition of full rent regulation contributed further to the woes of New York's seriously ailing private housing industry.

Created to assure an adequate supply of moderate rent housing, New York City's old rent control law shows evidence of having held rental income too low in relation to costs, and thus has been a contributing factor in many property owners decisions to defer, if not neglect, maintenance. Owner abandonment of private residential properties has occurred on a uniquely huge scale in New York City during the past few years.**

Administrative Inefficiencies

Lengthy bureaucratic delays and excessive red tape provide further examples of government-imposed hurdles to private housing development. Exasperating frustrations arise from the inconsistencies between public program goal rhetoric and the constraints imposed by the agencies responsible for the administration of those programs. Businessmen committed to ameliorating housing problems must stiffen their resolution in anticipation of burdensome impediments, because even the best of intentions and most unswerving dedication to the public good will not get them off the bureaucratic hook. For example, excessive delays in processing a project may eliminate a sponsor's profit allowance. Contractors doing business with the City must wait interminably for payment. Some add extra charges to compensate for this factor. In one instance a contractor still has not been paid for a project completed two years ago, and some of his subcontractors are threatened with insolvency because of the prime contractor's inability to pay them. A representative of one of New York's largest builders declared, "You can't make a living doing business with the City." Difficulties are not confined to local government. Governmental agencies find it difficult to carry out social objectives, such as creating more housing quickly, while at the same time having to pursue regulatory functions, because these roles are often contradictory.

Neighborhood Deterioration and Abandonment

Housing investment conditions are affected crucially by an entrepreneur's expectations of other investors' decisions in particular neigh-

Report to the Mayor on an Investigation into Rental Increases in the Non-Controlled Housing Market, Housing and Development Administration, February 1969.
**For a more detailed analysis of rent control see Appendix.

borhoods. Once under way, housing deterioration creates property owner pessimism, disinvestment becomes contagious, and neighborhood breakdown occurs. This process stems from social as well as economic factors. Neighborhoods containing large quantities of old and obsolete residential buildings, where the middle class has moved out and poorer, disadvantaged groups have taken its place, illustrate the point. In these areas available housing has become occupied by lower-income tenants. Turnover has brought rents up to their economic level—in terms of tenant ability to pay. But the new residents' low income has kept vacancies high. This, in conjunction with already deteriorating housing, contributes to vandalism and eventual wholesale abandonments.

George Sternlieb, in *The Tenement Landlord,* demonstrates in his analysis of Newark slums that housing deterioration can take place even in the absence of rent controls. The ingredients of decay include changing population composition, a careless attitude toward property, a weakening of the market structure for rentals, disdain for rehabilitation, reduction in the scope and quality of municipal services, and an appalling ignorance on the part of both landlords and tenants of the political and economic forces shaping their slums.

Abandonments aggravate the cancer of neighborhood breakdown. New York City has no central source that reports on abandoned buildings. Once vacant, vandals quickly strip such structures of all removable equipment or materials which can bring a salvage price. The situation is worsened because property laws make City acquisition take up to four years to accomplish. In response to this problem it has been suggested that the State pass legislation to expedite City takeover of abandoned buildings.

Community Involvement

Problems arising from dealing with the people in the neighborhood of a proposed apartment building add to the socially related deterrents to housing investment. Securing the necessary community cooperation in building public or publicly assisted private housing requires local involvement in all possible aspects of the development process, and is likely to impose difficult and tedious burdens of negotiation. Rarely is local leadership clearly identifiable. Too frequently, the struggle for power among community groups in disadvantaged areas prevents implementation of public assistance programs, including housing. When the Celanese Corporation of America and American Standard Incorporated formed a new corporation to produce housing in Harlem, for example, factionalism within the community quickly became apparent. "One group believed that obtaining housing quickly was the most important consideration and Housing Authority ownership should be accepted if necessary. An opposing group maintained that community management of its housing was more important than time or even financial consideration."*

*Harold K. Bell and Granville H. Sewell, *Turnkey in New York, Evaluation of an Experiment,* School of Architecture, Columbia University.


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Albert A. Walsh, the City's Housing and Development Administrator, declared that he would not allow community groups in any neighborhood to veto any housing program, although he would consult with them closely on plans for new projects.**

The requirements that job opportunities arising from construction be given to lower-income persons residing in the area of such housing and that local businesses be awarded appropriate contracts for work impose added costs on some housing projects. From a social standpoint, however, these added costs would be more than offset by the enhanced skills, productivity and earning power of local residents. ☐

**New York Times*, January 7, 1970, p. 47.

Government's Role

Scope and Effectiveness

Public authorities at all levels of government have responded to housing needs by developing a proliferation of programs. By the end of 1968, public and publicly assisted private housing programs had contributed approximately 260,000 housing units, and these made up about 9 percent of the City's inventory. In addition to the primary purpose of providing more and better shelter, public goals include the improvement of central city environments, and bear the assumption that "new bricks" will uplift morale and improve social behavior. Aside from providing public housing for the poor, assistance includes technical and financial aid to nonprofit community group sponsors, land cost write-downs, tax abatements, and interest and rent subsidies, frequently in combination.*

Combined public investment and operating costs resulted in a flow into the City's housing and renewal programs of $806 million during fiscal 1967-1968.** Housing construction accounted for 88 percent of the $343 million capital spending, with most of the remainder devoted to land acquisition and clearance. Of the funds invested directly in housing ($315 million) 32 percent was channeled into low-income units, 45 percent served middle-income families, and 23 percent served families earning over $10,000 per year.

The record of the past few years demonstrates that bureaucratic redundancies, inefficiencies and delays, divided responsibilities, few appropriate locations, relocation and community involvement difficulties, inadequate financing, and high and still soaring development costs have seriously hindered public efforts. Governments have not overcome, and are increasingly less able to compensate for, the elimination of an effective, profit-motivated private housing industry in New York City. In the period 1960-1968, public programs contributed an average of 12,000 units per year, with only 7,200 produced in 1968.

About the middle of 1969, Federal housing programs ground to a halt in New York City because construction costs exceeded the statutory limitations built into the enabling legislation. Congress has since responded to this situation by raising the limitations from $3,150 to $4,200 per room. This should enable the reinstitution of Federal programs here.

Public-Private Cooperation

Since governments have neither the resources nor the capabilities of building and managing large segments of the housing stock, they must place primary reliance on private industry. This awareness has led to greater emphasis on developing machinery for improved public-private cooperation. What began as a relatively narrow program designed to enable government to build housing for the poor

*A detailed review of government housing programs is contained in a special compilation available on request from the Economics Department of First National City Bank.

**David Dreyfuss and Joan Hendrickson, *A Guide to Government Activities in New York City's Housing Markets*, The Rand Corporation, Santa Monica, California, 1968.

has recently blossomed into a multifaceted approach. It seeks to combine the resources and expertise of private enterprise and government to create a relatively risk free market for private investment in housing and urban renewal. In their efforts to improve the climate for attracting capital into residential construction, state and Federal agencies offer comprehensive inducements. These include attempts to overcome antiquated and restrictive local building codes and zoning regulations, encouragement of technological innovations, and an earnest search for new sources of funds. Federal programs also place heavy reliance on tax incentives.

The United States Housing and Urban Development Act of 1968 (Act of 1968) and New York State's Limited Profit Companies Law (Mitchell-Lama) provide the principal legislative bases for encouraging private organizations to invest in low- and moderate-income housing and realize competitive yields.

An important facet of the Act of 1968 authorizes national banks to participate in the creation and operation of Federally chartered, privately funded corporations which would mobilize private investment and business skills in producing low- and moderate-income housing in volume. Tax advantages would be used as lures. The parent corporation, The National Corporation For Housing Partnerships, would form a local partnership as its vehicle for participating in local housing developments, pursuant to Federal and local programs. The parent organization would contribute part of the seed money or initial expenditures of the local partnership. This system reduces the risk of loss which might occur on any one project by permitting industrial and financing firms to pool their investments and spread their risks over a number of projects.

Making Housing Investment Attractive

Housing assistance legislation permits investors in low- and moderate-income housing to gain financial rewards in several ways. Primarily, these include development fees and various forms of tax benefits. For example, the interest subsidies provided by the Act of 1968 to reduce rents or carrying charges may add significantly to a sponsor's yield. The same Federal legislation encourages private developers by permitting the Department of Housing and Urban Development (HUD) to finance 100 percent of a project's purchase price when the sponsor (builder-investor) wishes to sell the project to a nonprofit corporation or cooperative composed of the project's tenants. In such a case, the sale price could be sufficient to permit the builder-investor to recover his full costs, equity investment and sufficient cash to pay the taxes due on the sale.

Housing developments require sponsors who furnish management skills as well as seed money to get a project started. Such sponsors may capitalize their entrepreneurial effort and thus enhance their returns. A 10 percent "sponsor-builder's risk allowance" may be added to the costs of a project (exclusive of land) for determining

the amount of a private HUD-insured mortgage. This allowance is provided for a developer who is a member of the sponsor partnership and who actually plans the land assembly, financing, building and operation of a project. A similar arrangement exists under New York State and New York City Mitchell-Lama projects, except that the sponsor's fee percentage is less than in the case of HUD, and diminishes as project values rise.

Federal tax incentives make it possible for sponsors to realize an attractive rate of return on housing by reducing their tax on other incomes through offsetting deductions relative to the tax losses incurred in operating a project after construction. It is important to emphasize that the sponsor may depreciate the entire cost of a building, even though 90 percent is paid with borrowed funds for which the sponsor has no personal liability. The depreciable amount permitted excludes the carrying charges previously deducted during construction.

Housing investors generally use an accelerated method of depreciation. This method results in larger paper tax losses in the early years of a project. Tax losses, and therefore tax savings, are further enhanced in the early years because of the technique of computing mortgage payments. HUD and Mitchell-Lama mortgages generally require level payments (including both interest and principal). The early payments, therefore, consist primarily of interest which is deductible for tax purposes.

Some Caveats

Governmental resources, beset by many conflicting demands, set definite limits on the funds that can be devoted to housing. Continually rising construction and operation costs, necessarily limited appropriations, statutory cost ceilings, and family income restrictions, even if made more generous, will continue to make housing production most difficult to achieve, especially in high cost areas such as New York City.

Industry's greatest housing challenge lies in exploiting its problem-solving capacities and presumed efficiencies in the development of housing for low- and moderate-income families, utilizing all available public aid, but within the constraints cited above. □

The Road Ahead

Good Housing Could Be Good Business

Private industry has an important self-interest in the creation of more and better housing in New York City and in the continued viability of its environment. New York is the business headquarters of the nation, and shows every sign of remaining so despite forecasts to the contrary. Housing activities designed to combat ghetto blight and improve the stock of dwellings, in conjunction with parallel efforts in employment, education and economic development, will help materially in sustaining a strong city. Furthermore, demographic and economic trends indicate that the inner-city minority group populations constitute potential markets of rapidly growing proportions. They will comprise increasingly large shares of the City's labor force. Rising standards have tended to persuade workers at all levels that they require adequate housing associated with pleasant and interesting amenities. The difficulties in the local market increasingly require that housing no longer be taken for granted but must actively be provided by establishments wishing to attract and keep qualified personnel. Helping satisfy housing needs, therefore, means more than just performing good deeds.

The huge dimensions of New York's largely unpenetrated housing market present enormous opportunities as well as challenges. The City will need approximately 670,000 new and rehabilitated dwelling units during the next decade. This total will provide for growth in the number of households (15,000 per year), replacement of inventory losses (10,000 per year), and replacement or rehabilitation of the City's 520,000 unsound (dilapidated and deteriorating) units. This count does not include the amount of currently sound housing which will inevitably slip into the unsound category.

Improving the Investment Climate

Before they train their weapons on the target of mass housing production, either in New York City or elsewhere, owners and managers of large financial and industrial corporations must first be convinced of the political feasibility as well as the potential economic and social benefits. Governments must create a radically improved climate for such commitment. This means appropriate monetary outlays, firm and unambiguous cooperation with housing entrepreneurs, and drastic reform of administrative agencies so that they help, rather than hinder, project development. The conventional practice of consuming years in redundant paperwork and endless negotiations must give way to a less cumbersome procedure. The huge investment required in city rebuilding implies no small act of faith. There is no reason why some of this trust cannot be applied to responsible management groups. Such a move could eliminate many of the tedious and obstructive administrative agency control procedures which cumulatively account for years of delay in project development and add greatly to costs.

One other way for local government to contribute significantly to an improved climate for urban renewal is to act as a buffer between

community groups and the developer. Neighborhood citizen involvement is fully justified. In fact, no plan is workable without its contribution. Businesses engaged in housing affairs should expect and seek as much community involvement as feasible. They cannot, however, be expected to sustain their investments in costly situations which become excessively protracted because of local factionalism.

In view of the deterrent to investment imposed by New York City's rent control system, it appears necessary to amend controls *gradually* and reactivate free market conditions. Suggested changes would permit fair market rents, which would improve rental income enough to provide for an adequate return on investment and encourage proper operation and maintenance of structures. In exchange for permitting more flexible rents, the City could require the allocation of some of this added income to improved maintenance, and would conduct strict code enforcement inspections. Where rents rise beyond the ability of various tenants to pay, public subsidies might make up the difference between what the tenants could afford and the economic rent of an apartment.

Fix Up or Replace

The most rapid means of increasing the stock of decent housing would seem to lie in large-scale rehabilitation of sound buildings. The existence within the City of many thousands of such structures which have slipped into deterioration (or will soon do so) clearly points to an approach which would compensate for deferred maintenance and revitalize old neighborhoods. In view of the immense difficulties of replacement, it obviously makes more sense to preserve and use existing reclaimable stock rather than to let it go down the drain. Rehabilitation also reduces the consequences of relocation and community instability that the bulldozer approach to urban renewal usually brings.

A large enough scale of rehabilitation might encourage a new modernization industry for builders and suppliers, with consequent economies of scale as well as increased employment and business opportunities for residents of the neighborhoods affected. This can be of particular significance in disadvantaged areas. The process, moreover, might give rise to technological advances such as the development of new products and systems which could also be of value in other aspects of the building industry.

Despite these apparent advantages, rehabilitation has not produced a significant number of improved housing units in New York City. Experience under the City's Municipal Loan Program, for example, has indicated that the cost of revamped dwellings suffers in comparison with that of new apartments produced under the Mitchell-Lama program. This is largely due to the fact that most structures reworked thus far have tended to be scattered old four- or five-story walk-ups where unforeseeable complexities imposed high repair costs and the finished product still provided an obsolete layout. Rehabilitation is

probably least feasible in the case of those buildings which require practically complete reconstruction. But there are substantial advantages in rehabilitation applied on a major scale to sound post-World War I structures, where replacement of bathroom and kitchen facilities and possibly new roofs and heating systems constitute the principal needed repairs. In order for rehabilitation to exercise maximum impact on neighborhood improvement, the buildings should be geographically concentrated rather than in isolation.

Large areas of the City stand on the brink of deteriorating into slums. Blocks of properties are ripe for acquisition and assembly. A dedicated management group could develop the technical apparatus for their rehabilitation. Concurrently, there should be broad experimentation with community participation, tenant-owner cooperatives, local labor and business involvement in the actual reconstruction work, job and management training, and the structuring of indigenous operation and maintenance organizations.* Housing can be preserved and neighborhoods revitalized under such conditions provided municipal authorities would cooperate by improving city services in the area.

Turnkey

A relatively new and rapid method by which a private developer can contribute to the low-income housing stock is to construct a building and sell it, along with the land, to a local housing authority for use as public housing. This "turnkey" approach automatically avoids a great deal of bureaucratic red tape.

Turnkey in New York faces the legal obstacle of the Wicks Law, which requires that any contracts by a housing authority for work exceeding $25,000 must have separate bidding and contracting for plumbing, heating and electrical installations. New York State attorneys maintain that any construction agreement concerning public housing must conform to the law. Federal authorities, on the other hand, insist that a turnkey contract is for a completed building, not for the actual construction, and the Wicks Law is not applicable. The City's Housing Authority, which has endorsed the turnkey concept, cannot implement it in a straightforward way because of this unresolved legal tangle.

The authorities have found a way out of this dilemma by invoking a surprisingly effective gentlemen's agreement with public-spirited developers. When the American Standard Corporation and the Celanese Corporation formed "Construction For Progress, Incorporated" to construct housing in Harlem, their only basis for expecting the Authority to purchase the completed building was a "handshake" acquisition agreement. A similar arrangement took place between the Authority and a development corporation created by the New York Bank for Savings and the Bowery Savings Bank. In cooperation with the Upper Park Avenue Community Association, these banks have built two apartment houses in Harlem.

*The Kate Maremont Foundation, in association with The Center for the Development of Cooperatives, has developed such a program for application in the Bronx. The Foundation for Cooperative Housing is another organization engaged in this kind of activity.

The three structures completed under "handshake" arrangements demonstrate that a turnkey system for constructing low-income housing can work. The streamlined but risky procedure can drastically reduce the time required to get public housing on line. But it requires an act of faith, and implicit acceptance on the part of developers of serious, if calculated, risks. The growing pressure for more low-rent housing in New York City may soon bring about intensive use of the turnkey device.

Other Innovations

Analysts often have attributed the relatively high cost of homes and the apparently slow productivity gains in housing production largely to fragmentation in the industry. In the United States the average homebuilder's operations are limited to less than 25 dwelling units per year. The typical low home construction scale precludes mass production techniques and the use of experimental or new methods and materials.

Soaring construction costs have prompted both the Federal government and New York State to institute programs to encourage new construction concepts, products, systems and procedures. Under Federal auspices Operation Breakthrough, administered by HUD, seeks to promote government-business partnerships which will combine new methods with the creation of a mass market through subsidies and, hopefully, a large volume of housing. In a similar vein, Governor Rockefeller, seeking "... to create a receptive climate for industry to provide the technological innovations that can reduce housing costs," charged the State's Urban Development Corporation to launch a "... new effort in public/private cooperation."

From a technical standpoint, two innovations seem especially promising in promoting productivity in housing. One involves the use of reinforced concrete in high-rise construction. The 70-story Lake Towers apartment building in Chicago exemplifies the possibilities. Some American firms have acquired rights for the use of foreign techniques, where the standard practice is to pour concrete modules and slabs at the building site.

Factory manufacture of module units which can be assembled on a production line, with plumbing and electrical work performed as subassemblies, represents a new industry of explosive potential. The high probability of continuing improvements in the new production systems raises the possibility that productivity gains may offset rising materials prices. Module houses, conventional in every respect except for method of assembly, can be turned out in far less time and cost than homes constructed in the traditional way. Most important, however, is the potential for volume construction.

The module principle of apartment construction, possibly utilizing a system of stacked concrete units, provides an important promise of applicability in New York City. Appliances, electrical and plumbing fittings, even furniture and carpets, can be put in place in the unit on

the ground, in a covered, weatherproof shed, at the job site, utilizing conventional building trades skills. Such units are then lifted into place, and can be arranged in a variety of architectural styles, with great facade design flexibility. The estimated cost savings resulting from an "all-weather" system may reach as high as 15 to 18 percent over conventional apartment construction techniques. Utilization of construction trade union labor may help get the technique accepted in New York City.

The scarcity of capital for investment in housing has given rise to several suggested innovations in this area too. One involves the use of "special assistance funds" in a "tandem plan." The plan will authorize the Government National Mortgage Association (GNMA) to make mortgage commitments to nonprofit sponsors of rental and cooperative housing under Section 236 of the Act of 1968 with the Federal National Mortgage Association (FNMA) agreeing to take over the long-term mortgages from GNMA for less than GMNA paid for them.

The National Corporation For Housing Partnerships has filed a registration statement with the Securities and Exchange Commission to raise $50 million for seed money. By utilizing available programs this sum can support as much as $1.8 billion in low- and moderate-income housing by the middle of the 1970's.

An additional potential incentive for housing production exists in the proposed Community Credit Expansion Bill, introduced in 1969 by Senator William Proxmire of Wisconsin. Under that bill, either existing financial institutions or newly created special institutions, to be known as National Development Banks, would be provided with substantial subsidies and guarantees in order to make loans for housing in low-income areas.

Citibuilding

Our large-scale housing needs and the existence of a potential mass market are obvious. Assuming government commitment of a smooth flow of funds on a long-term basis, home development consortia combining the talents of large financial and industrial organizations could deal effectively with the housing supply problem. Well-capitalized consortia can deploy management skills in depth. They can buy land or materials in large quantities and at lower prices than the small operator. The large development company can partially offset increases in costs of labor and materials through higher productivity—involving the intensive use of factory-assembled standardized components. It can institute computer-programmed cost controls. The consortium's access to financing is a major advantage. It can meet capital requirements via the public market as well as through other traditional sources at lower cost than ordinary construction loans. By engaging in operations in more than one area, a major consortium can spread its risk and offset low profits in one project by greater success in another. Most importantly, such organizations can apply the

sophistication and exploit the resources necessary for the comprehensive planning and redevelopment of entire neighborhoods.* The goals of the consortia would be to produce the largest volume of quality housing at the least cost, by integrating management, market, land, capital, planning, design and long-term financing in a systems-oriented approach.

This does not mean marshaling huge efforts for the single dimensional purpose of producing housing on a crash basis. Too often, programs have been implemented without taking into account their long-range impacts. Urban systems, up to now, have represented largely the abstractions of analysts who have attempted to rationalize diverse and frequently incompatible forms of development. The systems approach makes essential an awareness of the consequences of development programs—consequences which must be anticipated and compensated for on a firmer base than intuitive judgment. The numerous interrelationships between housing and its environment and the effects of changing key economic and social variables available to decision makers must be understood. Great care must be taken to prevent action taken from making the situation worse.

The potential of this approach is substantial. But so are the problems of such large-scale "human engineering." Goals must be realistic and attainable and the housing must be appropriate to income levels, size of family, and other social characteristics. Where to build? If slums are demolished, and new housing put in place in the same area, will it not be self-defeating to encourage immigration into an improved center city while available and appropriate employment is found increasingly in relatively inaccessible suburban places? If housing for the poor can be built only where the poor live, whatever their color, then it may be physically impossible to meet the growing goals for appropriate housing.

The problem of working with rather than against market forces to achieve optimal land use raises the question of the advisability of placing homes on expensive central city land where residences must compete with commercial demands for space. A satisfactory answer to this question must embrace a careful evaluation of the future role of the central city. Technological developments which emphasize communications and expanded opportunities for exchange of goods and ideas, and which have brought about the huge concentrations of central management and white collar workers, would suggest that residences be placed elsewhere than in the city core. It would seem more logical to increase population densities in the outer reaches of the City (e.g., waterfront properties currently owned, but no longer required, by the military) or in "inner ring" surburban areas (under

*An example of such an institution is the recently formed Camden City Centre Corporation. It was created by the Boise-Cascade Corporation, the Campbell Soup Company, RCA and Leon N. Weiner Associates, Inc., and will redevelop the 160-acre core of downtown Camden, New Jersey.

extraterritorial leasing arrangements if necessary), freeing the core to perform its essentially commercial function.

...And Building A Better City

Even well-conceived, large-scale "citibuilding" and rehabilitation projects are not the ultimate key to solving New York's housing crisis. For, in the final analysis, inadequate housing is only a symptom of much deeper problems. People will live in adequate housing only when they have sufficient money to pay for it.

In the short run public subsidies—either outright or in the form of interest subsidization or rent supplements—can help the poor find decent housing. For the long run, however, means will have to be found to enable the poor to raise their incomes so that they can bid freely in the housing market.

The way to ensure better housing for the poor is not simply to build and rehabilitate homes, but more fundamentally, to expand job opportunities and improve the capabilities of the disadvantaged through education and training. To be sure, much employment can originate from a massive housing program itself. New commercial and industrial facilities created as part of the "citibuilding" process will generate even more jobs.

In short, housing policy, instead of being oriented toward constraints (e.g., rent control), must become part of a broader thrust to expand human opportunities. Any successful approach to housing will have to be integrated with policies to promote education and develop human resources, economic growth and well-being. Through large-scale development and redevelopment of all our resources, a co-ordinated, comprehensive program can help forge a new economic frontier from the raw material of underutilized or improperly utilized manpower, public programs and private initiative, in the context of the vast opportunities of this great city. □

An Appendix

The Question of Rent Control

To understand the housing problem in New York City, it is important to examine carefully the impact of the rent control system which dates back to World War II. New York remains virtually the only major city in the United States which has kept rent control. By exempting private housing built after 1947, while maintaining controls on most pre-1947 inventory, New York City sustained a divided housing market—part controlled and part free—until 1969, when the current rent stabilization regulations went into effect on most of the remaining units. Under this system, private developers built over 150,000 multiple dwelling units between 1960 and 1966. In 1967-68, builders began to fear that controls might be extended to new housing. This, in conjunction with the impact of the 1961 zoning change, caused a sharp curtailment in construction. Rapidly rising operating costs and expectations that they would keep on rising made the impact of the threat of expanded rent controls all the more disastrous.

Apartment building owners had good reason to fear the juxtaposition of rigid rent controls with sharply rising costs. During the first seven years of the Sixties operating costs within the controlled sector had gone up by as much as 38 percent, about three times the rate of rents which rose only 13 percent. Rents in noncontrolled apartments rose 245 percent in this period. As a matter of practice, landlords were prevented from increasing controlled rents to a fair market value, or passing on rises in operating costs, even to those tenants who could afford it.

Based on up-to-date cost analysis, there is general agreement that adequate maintenance of sound old housing requires room rents of at least $20 to $25 per month. Currently, about 363,000 New York apartments rent for less than the minimum $20 per room. This means that private owners must either subsidize their tenants or reduce maintenance and services below levels required to preserve buildings in sound condition. In its joint study with McKinsey & Co. of New York City's housing, the Rand Corporation concluded that the City's rent-controlled apartment stock currently suffers a rental income deficit of $255 million a year.*

One purpose of rent control is to protect low- to middle-income city residents against the hardship of expending too great a portion of their income on shelter. The yardstick is pegged conventionally at a desirable maximum of 25 percent. In 1968, however, 60,000 families with annual incomes of $15,000 and more lived in controlled apartments and paid a median gross rent of $150 per month. As a percentage of income, their rent averaged about 8 percent. Almost 45 percent of New York families earning $10,000 and more enjoyed the benefits of rent control, and their rent-income ratios averaged 10 percent.

The inequities built into the rent control law often produce contra-

New York Times, February 13, 1970, p. 1.

dictory results. In some cases tenants subsidize others because of disproportionate rentals within individual buildings. The rent control law provides for 15 percent increases on leases for new tenants. Those apartments in controlled buildings experiencing the highest turnover tend to bear the highest rents. In one Manhattan apartment house, for example, rents vary from $35 to $175 per room for apartments that are substantially identical.

Rent control is further justified on the grounds that it tends to encourage middle-income families to remain in the City. The law has succeeded in curtailing family mobility, but not in the way planners envisioned. Rent control did not prevent the migration from the City of 1,200,000 middle class whites during the Fifties, and possibly another million during the Sixties. Those tenants who have stayed in their controlled New York apartments for long periods do find their rents falling further and further below the free market level and consequently have little incentive to move. With benefits based largely on duration of occupancy, the immobility encouraged by the law inadvertently discriminates against poor blacks and Puerto Ricans who are more transient and represent the largest portion of new arrivals. The disadvantages suffered by new tenants also tend to deter young families from setting up households in the City and apply to any poor family denied access to moderate rent apartments and who must seek shelter in the uncontrolled sector.

Rent control contributes to the underutilization of available space. Smaller families are understandably reluctant to leave large, controlled apartments. Artificially low prices also encourage higher spatial consumption than would be the case if free market prices prevailed. For example, in 1968, almost half of all controlled apartments were underoccupied—that is contained more than two rooms per person. In that year one-person households occupied over 100,000 (15 percent) controlled units of four rooms or more. Only 7 percent of the uncontrolled apartments of this size were so occupied.

Limitations on management rights have contributed importantly to housing deterioration in the City. Code enforcement inspectors have alleged that a substantial proportion of violations are tenant-caused. This condition increases maintenance costs, indicates an atmosphere of mutual distrust between tenants and landlords, and contributes to a vicious circle of damage and neglect. Some tenant-caused violations can lead to rent reductions. Once imposed, and the violations subsequently removed, it takes months to get rents restored to their previous levels. Buildings on which rents are reduced because of pending violations are likely to be those with already negative cash flows. Under normal circumstances, if a landlord cannot prove the tenant caused damages, he can at least refuse to renew the lease. This is not possible under rent control.

The City Planning Commission, in its Master Plan, asserts that rent

control is not responsible for the City's housing problem. When neighborhood influences, such as a preponderance of low-income residents, set market rental rates as low as controlled rents, the official position is correct. To the extent, however, that controlled rents are below what a free market would set, they discourage adequate maintenance.

Available data indicate that the extensive deterioration now characterizing New York's pre-1947 housing inventory is attributable in large part to uneconomic rents in otherwise sound buildings. In 1968, 23 percent of units subject to rent control were in a state of deterioration, while this condition existed in only 15 percent of decontrolled apartments of the same vintage. With attractive returns possible on investments in commercial development and in housing elsewhere in the nation, responsible owners and financial institutions tend to withdraw from properties subject to public price administration. Then less skilled operators take over. The inevitable results are excessive code violations, suspension of rent payments, and abandonment—to the detriment of all concerned.

The alarming deterioration in the rent-controlled housing sector, evidenced by neglected maintenance, abandonments and growing tax arrears on residential property, painfully indicates the generally inadequate returns permitted owners under the control system. Those provisions in the law intended to maintain adequate rental incomes have proved highly ineffective, serving best those landlords who could command highly skilled legal service, irrespective of the need for financial relief. In the words of Mayor Lindsay's special Rent Control Committee:

*While it is true that rent control has in large part maintained rents that tenants can pay, it has not provided sufficient economic incentive for the preservation and upgrading of housing. New York City has not discovered new laws of economics. If this failure continues unabated, our residents may soon be paying rents they can afford for accommodations that are not worth living in.**

Proposals offered by independent analysts concerning the relaxation of rent controls include immediate across-the-board increases to compensate for past operating cost rises, and escalation cost-of-operation clauses to protect owners against future increases. Provisions are suggested to permit rent rises when owners conduct major rehabilitation improvements. Assuring equal rents for equal housing—in other words the elimination of rent skewing—is a necessary reform. Industry spokesmen plead that a phased elimination of rent control, beginning with the highest rent apartments, be started forthwith. Owners also require enhanced protection against tenants who damage their property.

**Rent Control and Its Impact on Housing in New York City,* Report of the Mayor's Rent Control Committee, December 1969.

In order to prevent the pendulum from swinging too far in the direction of landlord power—and the record to date indicates the need for this protection—amended regulations should provide safeguards against landlord harassment of tenants, and must place limitations on the amount of increases imposed during any given length of time. In addition, amended control regulations should assure that a fair portion of increased rental income will be devoted to restoration and proper maintenance. Moreover, strict code enforcement, with stiff penalties against protracted violations, must accompany rent control relaxation.

Protection of tenants whose incomes will not permit payment of increased rents constitutes a central theme of the suggested changes in the rent control system. Within the context of current control legislation, a proposal has been suggested to provide subsidies to landlords of rent-controlled buildings. Other approaches would provide tax abatements to property owners to compensate them for the differences between economic rents and those paid by indigent tenants, or provide subsidies directly to needy tenants. Estimates put the cost of such rent supplement subsidies at approximately $130 million per year.

The question of rent control cannot be answered exclusively in terms of economics, however. There are many over-riding political and social considerations. The mere fact that there are more tenants than landlords means that political power tends to be tenant-oriented. Nevertheless, every thoughtful citizen of the City should be aware of the illusory nature of rent control's short-term gains. These controls will in the long run create the very housing conditions they are designed to prevent. They will be costly, ultimately, not only in terms of the prices paid for housing but in the very quality of the housing itself. □

For an authoritative discussion on the economics of rent control, see Frank S. Kristof, *Economic Facets of New York City's Housing Problems*, prepared for the Institute for Public Administration.

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